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# Project choice key for Urban Challenge Fund

India's new ₹1 trillion Urban Challenge Fund (UCF) was announced in the Budget in February and is set to be operationalised. It marks a fundamental shift in the Centre's role in urban financing — from an allocative model to a "challenge fund" format. The UCF offers 25 per cent of project costs on the condition that cities raise at least 50 per cent through public-private partnerships (PPPs) in the form of bonds, debt, or private equity. Therefore, cities will need a new playbook for project selection.

The contribution of PPP to urban projects has historically been low. Between 1990 and 2022, India's infrastructure sector mobilised substantial private capital, with 1,265 projects attracting over $295 billion (over ₹24 trillion) of investment — but the bulk was concentrated in transport and energy. PPP at city-level utilities and "creative city redevelopment" projects has remained abysmally low.

**INFRATALK**

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The UCF's three pillars — "cities as growth hubs", "creative redevelopment", and "water and sanitation systems" — signal bold intent. But intent without rigorous project selection criteria risks diluting the impact. The fund must back projects with clear revenue streams, demonstrable service improvements, and scalability.

On the "cities as growth hubs" front, India's first urban ropeway project being developed in Varanasi, the Mumbai Trans Harbour Link (Atal Setu), and the Mumbai Coastal Road Project reflect how transport-anchored infrastructure is supporting growth. Projects such as the adoption of Lal Qila by Dalmia Bharat, the restoration of Sunder Nursery in New Delhi by the Aga Khan Foundation, the Dharavi redevelopment in Mumbai as a PPP, and Ahmedabad's Sabarmati Riverfront illustrate what "creative redevelopment" can achieve.

Closely linked to real estate redevelopment is mobility, and the UCF's transport projects should complement rather than duplicate existing corridors. Instead of funding metro extensions, the UCF should sponsor last-mile electric feeder buses, pedestrian zones, and transit-oriented development (TOD) around metro stations. TOD projects combining metro stations with commercial spaces, hotels, and apartments can earn through parking fees and rents while reducing congestion. Integrated e-mobility hubs combining electric vehicle (EV) charging with solar microgrids, bike sharing, and small-scale transit fleets create multiple income streams while supporting India's EV transition. Basic road widening or standalone flyovers should be excluded.

Water and sanitation must be reimagined as service-oriented systems that recover costs and create value by installing smart technologies. Basic supply lines and treatment plants mandated under Amrut or the Jal Jeevan Mission can be funded through existing schemes, but water supply projects equipped with Internet of Things-enabled leak detection — emulating Pune's 24×7 water project — and decentralised wastewater recycling projects create revenue streams from industrial wastewater. Kanpur's sewage treatment plant programme, delivered by Kanpur River Management Private Limited — a special purpose vehicle of Shapoorji Pallonji and SSG Infratech — demonstrates that a single concessionaire can be mandated to develop, rehabilitate, and operate a city's STP network under a hybrid-annuity "One City, One Operator" contract, creating single-point accountability.

Asia's largest bio-CNG plant, a PPP between the Indore Municipal Corporation and the private company Ever Enviro Resource Management demonstrates how a city can generate carbon credits. Such circular-economy utilities with innovative models ensure each rupee primes multiple revenue channels.

UCF projects should be structured to catalyse municipal bonds and deploy value-capture mechanisms. Recent successes indicate the potential — Pune raised ₹200 crore in municipal bonds at 7.6 per cent yield for water system upgrades, while Pimpri-Chinchwad issued ₹200 crore in green bonds — yet only 15 of the 100 designated Smart Cities have tapped capital markets, reflecting technical-capacity gaps needing urgent attention. The Fund should focus on capturing land value via Transferable Development Rights, betterment levies and TOD leases, and renting out space above bus depots, fire stations and post offices to generate steady, secured revenue.

Good governance is essential for the UCF to succeed. It must operate as a transparent fund with independent evaluation panels and competitive tenders for project proposals. In specific cases, like monorail, or pod taxis, for instance, the Swiss Challenge method may be used too — a procurement route where an unsolicited proposal from a private party is processed by the government in a transparent manner.

The government has wisely opted for a fund over a scheme and should hire a professional fund manager through competitive tender, with transparent fees and incentive-linked pay to ensure performance and custodial integrity.

Capacity building remains vital, as most cities lack the ability to prepare market-ready projects. The expertise of the Private Investment Unit (formerly the PPP Cell), which manages the India Infrastructure Project Development Fund (IIPDF), could be leveraged here. Having structured over 30 projects under IIPDF with ₹70 crore in approved funding and a ₹150-crore outlay for 2022-25, the unit is well placed to provide transaction support and project preparation assistance to urban local bodies for the UCF.

In summary, the projects funded through the UCF must satisfy four key conditions.

One, they must be financially viable, with predictable revenue streams through user charges and fees, land monetisation, and other instruments.

Two, they must result in improved service delivery, with calibrated improvements in service levels over time.

Three, they must use innovations in urban tech such as AI, IoT and on-site renewable energy.

Four, they must achieve measurable social impact.

Success hinges on designing the UCF as a true "challenge" — competitive, creative, and transparent — deployed on a level playing field, where success is determined by the value embedded in the project itself.

As we march towards Viksit Bharat 2047, the UCF's project selection framework will determine whether our cities become engines of growth or remain perennial seekers of grants. The choice, and the design, is ours.

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